DIRECT TESTIMONY

OF

GERHARD HAIMBERGER

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2004-002-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH SOUTH CAROLINA ELECTRIC & GAS COMPANY (SCE&G).

A. Gerhard Haimberger, 111 Research Drive, Columbia, South Carolina. I am employed by SCANA Services, Inc. as General Manager-Fuel Procurement providing fuel purchasing on behalf of SCE&G.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I have a Bachelor of Science Degree in Mining Engineering from the Colorado School of Mines in Golden, Colorado and am a registered professional engineer. I have been involved in fuel production or procurement for over thirty years. The Company employed me in July, 2003 in my current position reporting directly to the Senior Vice-President, Fuel Procurement and Asset Management, SCANA Services, Inc.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the procurement and delivery activities for fossil fuel used in electric generation for SCE&G and GENCO's Williams Station for the period March 1, 2003, through February 29, 2004 and to comment on the current state of the U.S. coal industry resulting in significant price increases for coal since the spring of 2003. I will also comment on the lack of adequate rail service to meet utility coal demand in the southeast.

Q. PLEASE EXPLAIN TO THE COMMISSION SOUTH CAROLINA GENERATING COMPANY ("GENCO") AND ITS RELATIONSHIP TO SCE&G.

A. South Carolina Generating Company, Inc., ("GENCO") was incorporated October 1, 1984, as a SCANA Subsidiary. GENCO owns the Williams Electric Generating Station. GENCO sells to SCE&G the entire capacity and output from the Williams Station under a Unit Power Sales Agreement approved by the Federal Energy Regulatory Commission. Hereafter when I refer to SCE&G's fossil steam plants I include Genco.

Q. PLEASE SUMMARIZE SOUTH CAROLINA ELECTRIC & GAS COMPANY'S (SCE&G) FUEL PROCUREMENT NEEDS AND PURCHASING PRACTICES.

A. SCANA Services acts as agent for SCE&G in arranging all coal, fuel oil and associated transportation for SCE&G's fossil plants with the objective of securing reliable supplies of the required quality and quantity at reasonable prices.

Q. HOW DOES THE COMPANY SECURE THE NECESSARY QUANTITIES OF COAL AND OIL AT COMPETITIVE PRICES?

A. SCE&G maintains an active list of qualified suppliers of coal and fuel oil used to power our plants. As contracts expire, or as needs are identified, solicitations are mailed out for competitive sealed bids.

Q. HOW DOES SCE&G APPROACH THE MARKET PLACE TO MAINTAIN SUPPLY RELIABILITY AND AT THE SAME TIME LEVERAGE PURCHASING POWER TO NEGOTIATE THE BEST PRICES IN BOTH COAL AND FUEL OIL?

A. Coal is procured with long-term contracts (up to three years) and short-term contracts (up to one year) to achieve a balance of reliable supplies and flexibility to react to market changes or short-term system needs. Long-term contract purchases are designed to represent approximately 75 percent of projected system demand and typically are written with option quantities when market leverage allows. A variable quantity clause in these contracts provides a mechanism to manage inventories and react to short-term changes in the marketplace, with no contract penalities, should prices become more competitive. By purchasing a component volume of coal unsecured, SCE&G has been successful in taking advantage of favorable spot market purchase prices and supply additional quantities at competitive prices or to reduce purchases if demand is below forecast. Fuel oil contracts are renegotiated biannually.

Q. HOW DOES SCE&G ASSURE THE RIGHT QUANTITY OF FUEL SUPPLIES TO MEET SEASONAL DEMANDS?

A. SCE&G uses several methods to bring the fuel supply and demand factors together. First, seasonal burn levels are calculated and forecasted for each of the generating plants throughout the upcoming year. Second, coal and fuel oil inventories are validated and contract quantities are added together to arrive at the system needs going forward. With this information, procurement looks at the coal requirements and the economics of exercising the variable quantity portions of long-term contracts or the possibility of going to the spot market to purchase any additional coal requirements at cheaper pricing. Throughout the years, SCE&G has been successful in leveraging long-term and short-term coal purchases to achieve reasonably low purchase prices while assuring the reliability of coal supplies necessary to support system needs.

Fuel oil inventories are purchased to ensure adequate back up to natural gas for SCE&G's intermediate and peaking generators. Contracts are awarded on a biannual basis using competitive bids. Typically, fuel storage tanks are filled going into peak usage periods and reduced to lower levels throughout the shoulder months (spring and fall) to protect fuel quality.

Q. **HOW DOES THE COMPANY MANAGE COAL INVENTORIES TO INSURE RELIABILITY AND AVAILABILITY?**

A. The Company strives to maintain approximately two months' coal inventories to support anticipated consumption. This inventory level provides adequate coverage to best protect SCE&G against availability, production and delivery problems. It also affords the resources to meet our supply needs when short-term market prices are unfavorable. Naturally, it is always important to balance short-term decisions against long-term requirements and future operating conditions.

Q. **HOW DOES THE COMPANY DETERMINE THE "REASONABLE PRICE" FOR FUEL PURCHASES?**

A. Our fuel procurement practices attempt to achieve an optimization between adequate supplies of acceptable quality at reasonable purchase prices with the ultimate value of the delivered fuel (coal or oil) determined by the actual measured heat rate efficiency in the operation of our generating plants. The supplier determines the product value on the basis of production cost, transportation and the use of relative index comparisons to other fuels in the energy industry. Markets experience pricing fluctuation and volatility caused by seasonality, political turmoil, national weather trends and supply/demand imbalances. SCE&G strives to use a variety of pricing mechanisms among coal contracts to mitigate or normalize the effects on prices created by changes in market conditions and indexes by staying close to market, balancing adequate inventories against long-term contract supplies, spot market purchases and variable quantity options. In addition to strategically managing our current assets, SCE&G participates in various trade organizations and subscribes to a number of industry specific publications, both private and government sources. These information sources are essential to staying current with developing trends, systemic changes taking places in the industry and providing key marketing information. The combined information flow is integral in our ongoing analysis of current or prospective coal costs and market comparability.

Q. SUMMARIZE THE QUANTITY, QUALITY, AND TERM OF THE COMPANY'S COAL CONTRACTS.

A. During the period March, 2003 through February, 2004, the Company purchased approximately 5.4 million tons of coal under long term and short term contracts, which represented approximately 87 % of the requirement for the Company's coal-fired stations and GENCO's Williams Station. The balance of our requirements were obtained through spot purchases. For the March, 2004 through February, 2005 period, the Company projects to have long term contracts with 11 suppliers totaling 6.4 million tons of coal representing approximately 93% of the total receipts depending on final contract negotiations. The quality ranges are from 12,200 to 13,000 BTU per pound and sulfur contents of from 1.0% to 1.5%. Most of these contracts are for a period of three (3) years with options to renew or extend for as long as six (6) additional years. The amount of coal under contract will vary from year to year. In some of our coal contracts, we have been successful in negotiating fixed pricing for the term of the contract. In other coal contracts, price adjustments are negotiated for predetermined amounts.

Q. WHAT PRICES HAS THE COMPANY PAID TO COAL PRODUCERS FROM MARCH 2003 THROUGH FEBRUARY 2004?

A. Exhibit No. _________ (GH-1) entitled, "Coal Purchased For Steam Plants", shows the average cost per MBTU of coal purchased in March, 2003 through February, 2004. Based on the long term and short term contracts and the purchases of spot coal during that period, we have seen the producer cost of coal vary in price from a weighted average high of $1.2899 per MBTU ($32.65 per ton) in February, 2004 to a weighted average low of $1.2065 per MBTU ($30.50 per ton) in May 2003.

Q. WHAT HAS BEEN THE RECENT PRICING TREND IN THE NO.2 FUEL OIL INDUSTRY?

A. Fuel oil prices increased dramatically in 2003/04 reflecting the actions of OPEC and increasing demand. During the past year, delivered prices have varied from a weekly low of $0.7953/gallon in September 2003, to a weekly high of $1.2071/gallon in March 2003. Exhibit No.________(GH-2) shows the average system delivered #2 fuel oil prices for March, 2003 through February, 2004.

Q. WHAT HAVE BEEN THE MAJOR FACTORS THAT HAVE INFLUENCED COAL AND FUEL OIL MARKET CONDITIONS AND THE IMPACT ON RECENT PRICING TRENDS?

A. The coal market has fundamentally changed since the spring of 2003 in that current coal demand exceeds supply resulting in fob mine prices having risen approximately 50% (from low/mid $30's/ton to $50+/ton). Several factors which have affected market conditions are as follows: (1) strict new environmental laws have delayed or slowed new mine permits; (2) major coal producers have filed Chapter 11; (3) reduced production levels by many major producers; (4) consolidations and acquisitions by publicly traded companies with obligation to meet shareholders' expectations; and (5) continued depletion of more economically mineable coal reserves. Additionally, there has been a resurgence of U.S. export coal for both steam and metallurgical coal caused in part by the increased import of raw materials by China. Current world oil prices are at or near record highs, as documented in the press, and have increased #2 fuel oil prices dramatically. The recent reduction in crude oil production by OPEC and general political instability in the middle east and Venezuela have contributed toward the rise in price.

Q. HOW HAS THE GENERAL AVAILABILITY OF COAL BEEN AFFECTED?

A. For the reasons stated above, current coal demand exceeds supply creating a "tight" market with increasing prices. Additional, rail service for the delivery of coal has not met demand for the past several months creating a challenging situation to maintain adequate coal inventories, especially in anticipation of the summer higher electricity demand period. SCE&G's coal-burning facilities are primarily served by one rail company, CSX Transportation, Inc. (CSX). In an effort to overcome these limitations, SCE&G recently has increased our contract with Norfolk Southern, thereby receiving more coal from the mine fields at Wateree Generating Station. From there, the Company is able to redistribute the coal via CSX railroad and truck lines to meet our coal requirements.

Q. HAVE FREIGHT COSTS VARIED FROM MARCH 2003 THROUGH FEBRUARY 2004?

A. My Exhibit No. ____________ (GH-1) shows the average freight costs per MBTU for coal purchased for each month. During that period, the freight costs varied from a weighted average high of $0.4785 per MBTU ($12.11 per ton) in February, 2004 to a weighted average low of $0.4300 per MBTU ($10.87 per ton) in May, 2003.

Q. HAVE DELIVERED COSTS FOR COAL TO INCLUDE FREIGHT VARIED FROM MARCH 2003 THROUGH FEBRUARY 2004?

A. Exhibit No. _________ (GH-1) shows the average delivered cost per MBTU of coal purchased in March, 2003 through February, 2004. During that period, we have seen the delivered cost of coal vary in price from a weighted average high of $1.7684 per MBTU ($44.76 per ton) in February, 2004 to a weighted average low of $1.6365 per MBTU ($41.37 per ton) in the month of May, 2003.

Q. WHAT CONTRACT FREIGHT RATE CHANGES HAS THE COMPANY EXPERIENCED?

A. Coal movements to all of SCE&G's plants (except the Canadys Station) are covered under long term contracts ending December 31, 2008. The contract to move coal to Canadys (which includes a short line haul) has just been consummated at a rate increase of approximately $2.30/ton resulting in a freight rate currently typical for the movement of coal to southeast utilities.

Q. HOW DOES THE COMPANY CONTROL FREIGHT CHARGES?

A. We are continually communicating with our freight carriers regarding innovative ways by which we can moderate not only present but also future freight costs for the movement of coal to our Company. Only one of our plant receives dual rail service. The Company is addressing various issues with CSX and the Norfolk Southern Corporation (NS) to include increased freight rate discounts, minimized future freight rate adjustments, and increased incentives for additional tonnages moved.

Q. ARE THERE ANY OTHER THINGS THE COMPANY HAS DONE TO MITIGATE FUEL RELATED EXPENSES THAT WILL IMPACT FUEL COSTS?

A. Effective January 1, 2000, Phase II of the Clean Air Act of 1990 called for electric utilities to reduce sulfur dioxide (SO2) emissions. A SO2 Emission Allowance Trading Market was established by the Environmental Protection Agency (EPA) to assist utilities in managing the costs of complying with these new regulations. The Company has purchased SO2 allowances as part of our overall strategy to compensate for our SO2 emissions.

Q. HAS SCE&G MADE EVERY REASONABLE EFFORT TO MINIMIZE ITS FUEL PROCUREMENT COSTS?

A. Yes. As outlined above, we have made every reasonable effort to obtain reliable, high quality suppliers of fuel and transportation at the lowest possible cost to our customers.

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. The fuel procurement group maintains excellent market intelligence with a cadre highly experienced in the energy and transportation markets, allowing us to make every reasonable effort to obtain high quality and reliable suppliers of fuel and transportation at the lowest possible cost to our customers.

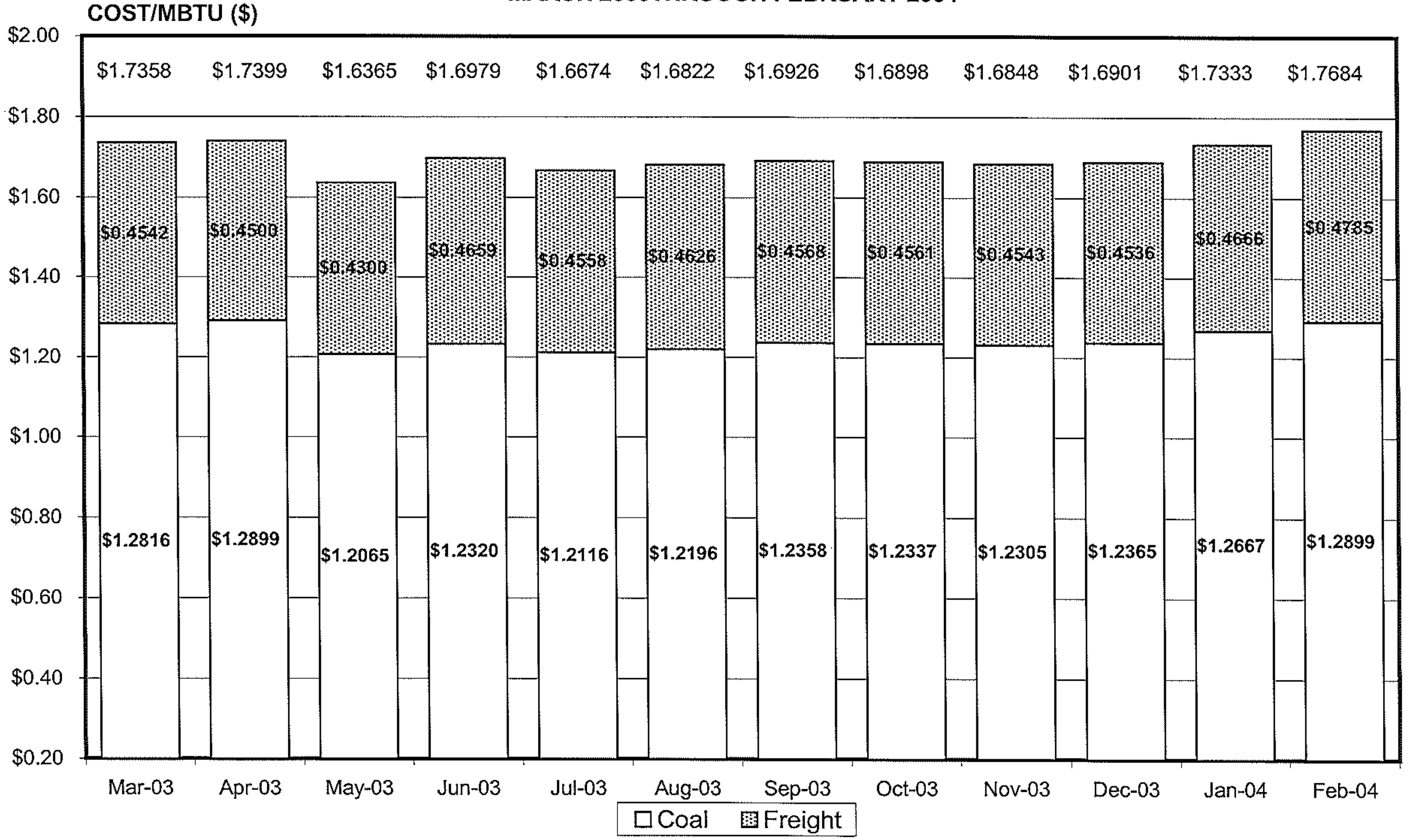
Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Exhibit #________(GH-1)

South Carolina Electric & Gas

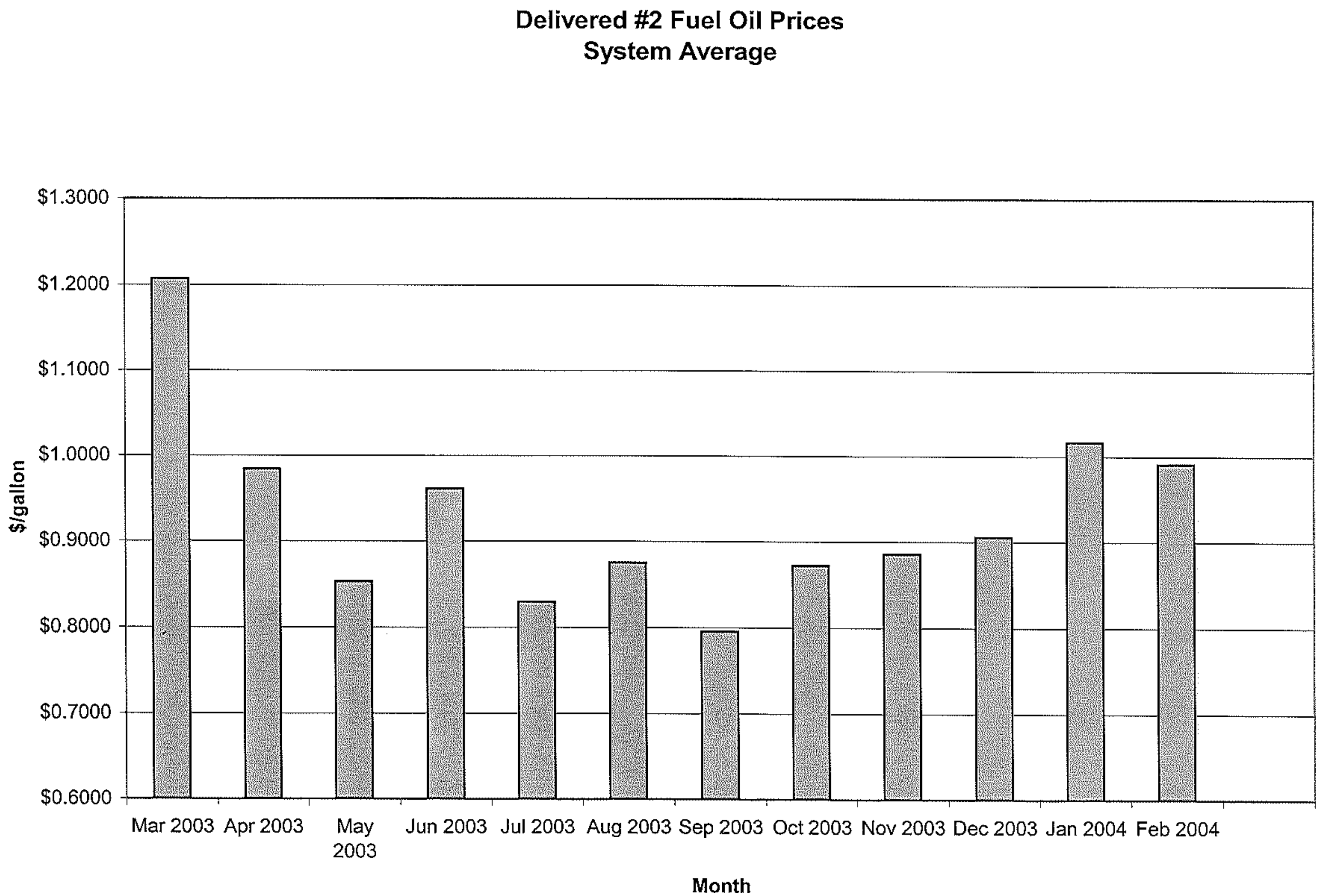
COAL PURCHASED FOR STEAM PLANTS
MARCH 2003THROUGH FEBRUARY 2004



Month	Coal	Freight		BTU	Coal			
Mar-03	$1.2816	$0.4542	$1.7358	12635	$32.39	$11.48	$43.86	
Apr-03	$1.2899	$0.4500	$1.7399	12635	$32.60	$11.37	$43.97	
May-03	$1.2065	$0.4300	$1.6365	12639	$30.50	$10.87	$41.37	
Jun-03	$1.2320	$0.4659	$1.6979	12634	$31.13	$11.77	$42.90	
Jul-03	$1.2116	$0.4558	$1.6674	12691	$30.75	$11.57	$42.32	
Aug-03	$1.2196	$0.4626	$1.6822	12674	$30.91	$11.73	$42.64	
Sep-03	$1.2358	$0.4568	$1.6926	12681	$31.34	$11.59	$42.93	
Oct-03	$1.2337	$0.4561	$1.6898	12684	$31.30	$11.57	$42.87	
Nov-03	$1.2305	$0.4543	$1.6848	12670	$31.18	$11.51	$42.69	
Dec-03	$1.2365	$0.4536	$1.6901	12671	$31.34	$11.50	$42.83	
Jan-04	$1.2667	$0.4666	$1.7333	12701	$32.18	$11.85	$44.03	
Feb-04	$1.2899	$0.4785	$1.7684	12655	$32.65	$12.11	$44.76	

Exhibit #____ (GH-1)

Exhibit#___(GH-2)


Delivered #2 Fuel Oil Prices
System Average
$/gallon
$1.3000
$1.2000
$1.1000
$1.0000
$0.9000
$0.8000
$0.7000
$0.6000
Mar 2003
Apr 2003
May 2003
Jun 2003
Jul 2003
Aug 2003
Sep 2003
Oct 2003
Nov 2003
Dec 2003
Jan 2004
Feb 2004
Month

Month	Coal	Freight			#2 Fuel Oil			
Mar 2003	$1.2816	$0.4542			Mar 2003	$1.2071		
Apr 2003	$1.2899	$0.4500			Apr 2003	$0.9841		
May 2003	$1.2065	$0.4300			May 2003	$0.8528		
Jun 2003	$1.2320	$0.4659			Jun 2003	$0.9608		
Jul 2003	$1.2116	$0.4558			Jul 2003	$0.8297		
Aug 2003	$1.2196	$0.4626			Aug 2003	$0.8749		
Sep 2003	$1.2358	$0.4568			Sep 2003	$0.7953		
Oct 2003	$1.2337	$0.4561			Oct 2003	$0.8719		
Nov 2003	$1.2305	$0.4543			Nov 2003	$0.8855		
Dec 2003	$1.2365	$0.4536			Dec 2003	$0.9054		
Jan 2004	$1.2667	$0.4666			Jan 2004	$1.0168		
Feb 2004	$1.2899	$0.4785			Feb 2004	$0.9912		
			Fuel oil information from FMS Fuel Stock report					
			Printed each month received and got average by dividing					
			dollars by gallons.					

Feb-03	Jan-03	Dec-02	Nov-02	Oct-02	Sep-02	Aug-02	Jul-02	Jun-02	May-02	Apr-02	Mar-02
89962	29965	60026	59697	219494	74162	118540	73983	169861	44575	89447	74367
67518	7548	499151	128210	7505	7429	133152	7398	7409	236913	7433	7452
192585	506684	1500	37264	437804	22227	7138	48507	7406	103560	208393	626255
746611	52551	7495	8545	200159	66720		7398	956752	7424	7448	254013
180429	74971	75328		105750	7059		163099	51884	6518	96623	75015
67587	53637	37506		151525			88893	96377		1737	22511
243548	82140	225455		30703			8930	3940			7799
3502	405421	6007		12887							
	21508										
	8552										
	9000										
1591742	1251977	912468	233716	1165827	177597	258830	398208	1293629	398990	411081	1067412
1756585	1183587	739666	191576	1019327	143971.6	196808.9	294857.7	944588.2	293402.1	267519.8	705588
1.1036	0.9454	0.8106	0.8197	0.8743	0.8107	0.7604	0.7405	0.7302	0.7354	0.6508	0.6610

Exhibit #___(GH-2)